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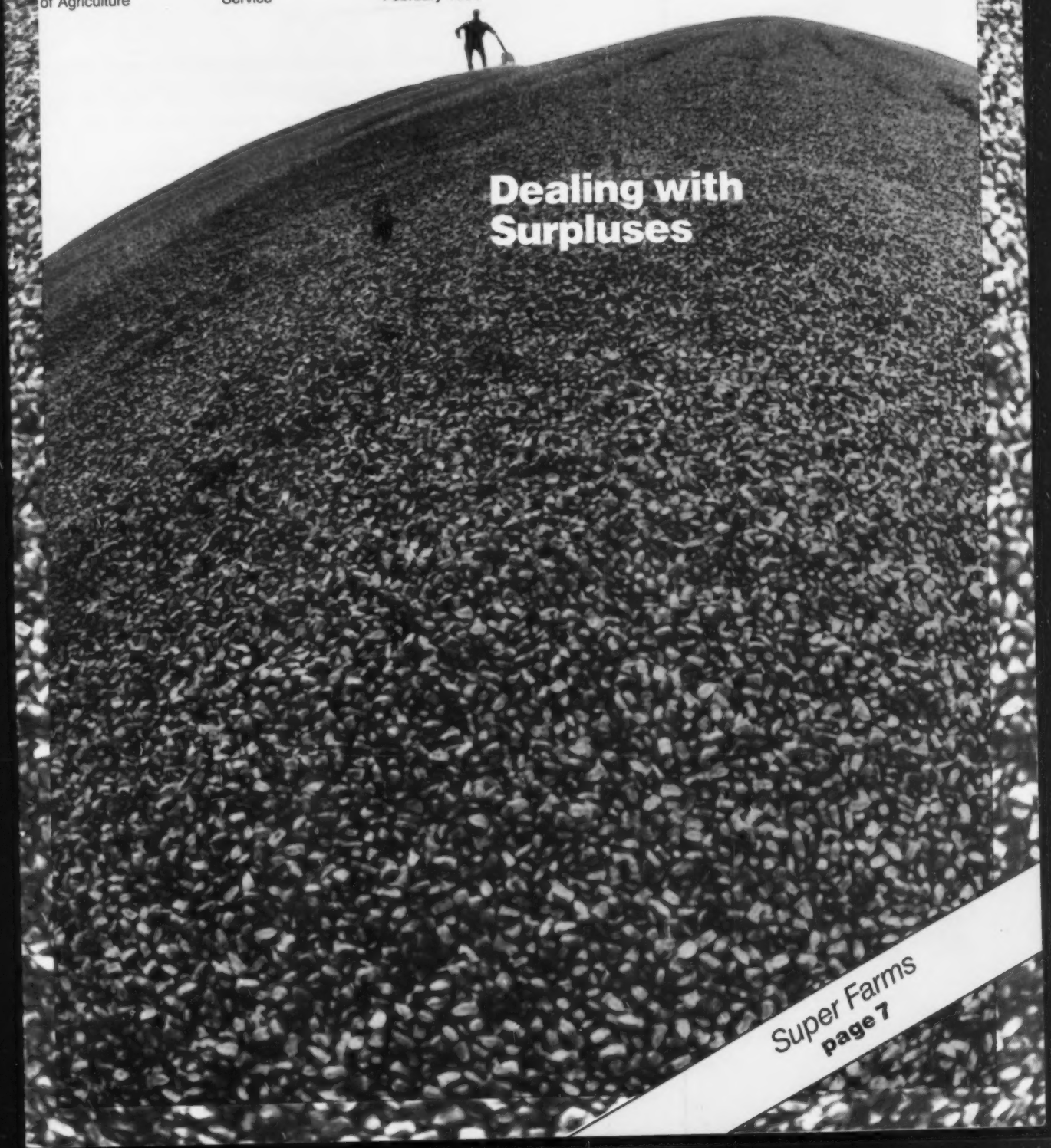

Dealing with Surpluses

Super Farms
page 7

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PERSPECTIVES

SIGNUP FOR THE NEW CONSERVATION RESERVE PROGRAM is expected to begin next month. It has the ambitious objective of taking millions of acres of highly erodible farmland out of production for a decade or more. Erosion is considered a serious problem on more than a third of the nation's farmland. The reserve may also help trim surpluses of cotton, grains, and oilseeds. Here's an outline of how the program will work:

Farmers accepted into the reserve sign a 10-year contract with USDA and grow a ground cover instead of crops. The land must be put into perennial grass, wildlife plantings, windbreaks, or trees. Harvesting crops or grazing livestock is not allowed. In return, the government pays farmers a yearly rent on the land, as well as half the initial cost of establishing the ground cover.

Up to 45 million acres may be enrolled in the reserve from 1986 through 1990. For the 1986 crop year, USDA expects to enroll at least 5 million acres.

Which land is eligible? Nationwide, around 70- 100 million acres of cropland (out of 421 million) might meet the eligibility criteria, according to USDA. Specifically, the land must have been used for annual crop production during any 2 years from 1981 through 1985. And the land must be considered highly erodible. The criteria center around the eight land classifications developed by USDA's Soil Conservation Service (SCS). (Generally, the higher the class number, the more serious the soil problems.) Most likely to be enrolled in the reserve program will be: cropland in classes II through V that is eroding at more than twice USDA's accepted tolerance level (the rate at which soil forms); and cropland in classes VI, VII, and VIII, which is generally viewed as too steep or too shallow for farming.

To find out what class your land is in, consult the soil survey for your county. If you are not sure of your land's erosion rate, request assistance from your local SCS technicians.

How do you sign up? You submit a bid of the amount of rent you'd expect the government to pay you for taking your land, or part of it, out of production. How do you determine the amount you should bid? The answer is highly individual and depends (among other things) on how much of a return you think you'd get from growing a crop on the land. Farmers will be bidding against other farmers for acceptance into the program, but only within their own states. The lowest bids are most likely to be accepted, and there is a maximum enrollment of 25% of the cropland in each county.

Other information you'll need for your application includes your land's location, its acreage, a cropping history for 1981 through 1985, and a list of the conservation programs you've used on the land since 1981. Specific application requirements will be available from local offices of USDA's Agricultural Stabilization and Conservation Service (ASCS) in early March.

Rental payments are limited to $50,000 per year, per producer. But even if you receive the maximum payment, it won't affect the amount or type of other government payments you may be eligible for. If you want to back out of the contract a few years down the road, you can, but with considerable penalties: You would have to repay, with interest, all the rental payments you'd received plus the government's half of developing the ground cover.

When your contract expires, you may return your land to crop production. However, by 1990, all farmers cropping highly erodible land will have to follow an approved conservation plan in order to participate in most USDA farm and commodity programs.

Special Alert to Readers: The Economic Research Service has published a summary of the major provisions of the new farm bill. As long as supplies last, single copies are available free of charge. Write to: Farm Bill Report, ERS-USDA Room 237, 1301 New York Ave. N.W., Washington, D.C. 20005-4788. Ask for: *The Food Security Act of 1985*, AIB-497.

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

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The 1985 farm bill represents an experiment with a new strategy for dealing with surpluses. The question is: Will the experiment succeed where past efforts have failed?

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Their numbers are growing, and their role in agriculture is already far greater than the numbers might suggest. Economist Paul Velde profiles the "super farms," those operations that gross $1 million or more a year.

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The Vietnam war ended a decade ago, but Vietnam is still fighting a battle for economic recovery.

A Lean Hog Industry Faces Lean Times *by Ben Blankenship* 12

The hog industry is one of the most efficient in all of agriculture. But even efficiency hasn't protected the industry from one of the worst slumps in recent memory.

Southeastern Trend Favors Less Till, No-Till *by Ellen Banker* 13

Southeastern farmers are rapidly adopting conservation tillage practices, according to USDA economist Lee Christensen, who compares the tillage trends in 1973 with those in 1984.

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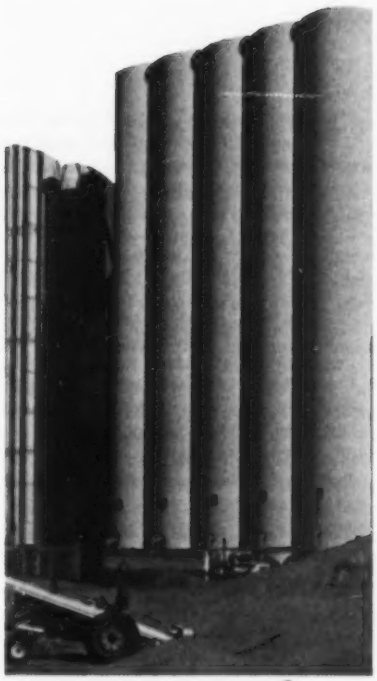
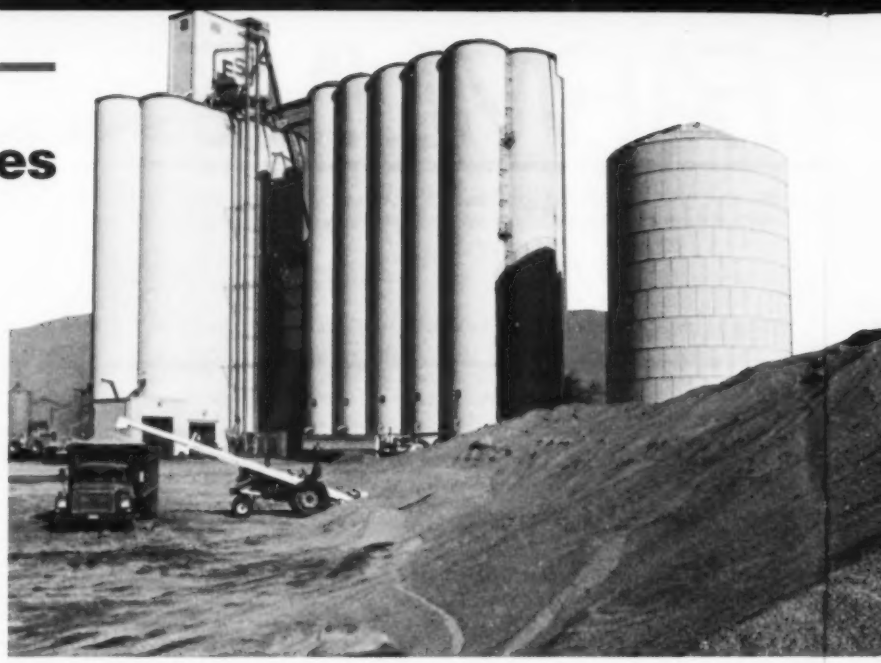


The Farm Bill Vs. the Surpluses



So far, U.S. efforts to deal with surpluses have largely failed.

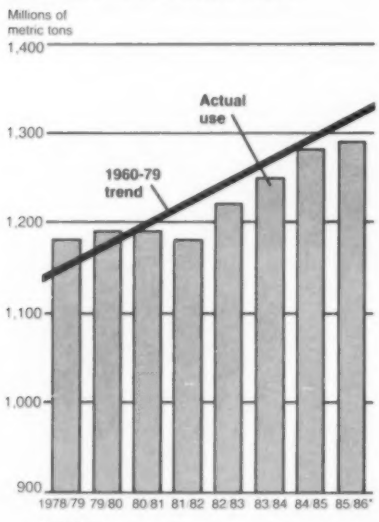
Growing crop surpluses are evidence of the wide gulf that has developed between U.S. agriculture and its markets. A move toward closing this gulf had to come sooner or later, according to two analysts of USDA's Economic Research Service.

If the 1985 farm bill hadn't taken a step in that direction, policymakers would only have postponed the inevitable, claim economists Sam Evans and Keith Collins.

"The reason is simple," Evans says. "Realignment with the demands of the marketplace has been the history of agriculture and of every other industry that has significantly deviated from competitive price and production levels. In recent years, we've seen it happen in oil, airlines, and automobiles."

Evans and Collins contend that when wide discrepancies persist, they create two problems. Policies unresponsive to market demand are costly to maintain, and rising costs eventually generate a backlash from taxpayers, consumers, or producers. In addition, competition ultimately emerges to undermine efforts to sustain nonmarket conditions.

World Wheat and Coarse Grain Use Continues To Fall Below Trend



*Projected.

Like the farm legislation of 1981, the new farm bill is an attempt to respond to current and prospective economic conditions in agriculture. It is the conditions, however, that have changed so radically.

The reality we face today, says Evans, is that U.S. and world agriculture has production capacity well in excess of the demand evidenced in the marketplace. That excess capacity is not likely to disappear anytime soon, and it is almost the exact reverse of what was expected just a few years ago.

From Perceived Scarcity to Surplus

"In 1981, the main concern was whether we would be able to produce enough to feed a hungry world," he says. "After all, the 1970's brought unprecedented growth in world grain consumption and trade, and the United States was believed to be the country with the greatest potential to expand production."

Other concerns at the time centered on a stubborn inflationary spiral and rising farm production costs. In the 1981 farm bill, price supports were established based on the assumption that high rates of inflation had become a long-term fixture of the economy.

"Instead," says Evans, "inflation was brought under control, farm production costs have risen far less than anticipated, and demand has faltered. Trade forecasts are as pessimistic today as they were optimistic back then."

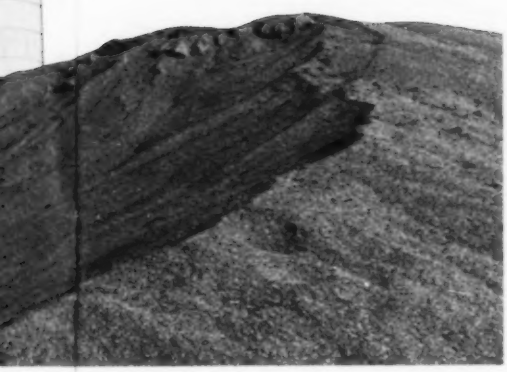
In fact, U.S. agricultural export earnings are projected to drop to around $29 billion this fiscal year, down from a high of $43.8 billion in 1981 and the lowest level since 1978. Volume may decline to around 120 million metric tons, down from more than 160 million tons in 1980 and 1981.

Evans traces the beginning of the surplus back to 1980. A summer drought that year led to tight supplies, setting the stage for large plantings in 1981. Given the bullish trade outlook inherited from the 1970's, an acreage reduction program was thought to be unnecessary. The drought also provided the impetus for the expansion of winter wheat in the South, most of which is double-cropped, he says.

The following year, production was maintained, even in the face of declining prices. Demand had been weakening because of a world recession, a strengthening U.S. dollar, high real interest rates, and debt problems abroad. At the same time, many importing nations were taking steps toward greater self-sufficiency, and other exporting nations were responding to production incentives provided, in large part, by high U.S. price supports and the strengthening dollar.

Misled by Trends

As a result, world consumption, production, and trade followed very different paths from the ones suggested by the trends set between 1960 and 1979.



Forecasters say the current 1985/86 season will be the sixth year in a row in which combined world wheat and coarse grain consumption will be below the level indicated had the 1960-79 growth trend continued. This will also be the third year since 1980/81 in which world wheat and coarse grain production is above the 1960-79 trendline.

During the 1960's, world wheat and coarse grain trade grew at an average rate of slightly over 2 million metric tons a year. In the 1970's, the rate jumped to 8.7 million tons a year, primarily because of the entry of the USSR, Eastern Europe, and China into international grain markets. It was the 1970's that fed the optimism for the 1980's, Evans recalls.

The expectations were unfulfilled. World trade in wheat and coarse grains has actually dropped—from about 202 million metric tons in 1980/81 to a projected 185 million in 1985/86.

Together, these developments—expanding production, weak growth in demand, and declining trade volume—have created a serious surplus problem for many of the world's exporters, and particularly for the United States.

"By the end of 1985/86," says Evans, "global stocks of wheat and coarse grains could be equivalent to more than 21 percent of annual world use, the highest ratio since the late 1960's. The only nation consistently attempting to cut production—the United States—is expected to be holding about 55 percent of world stocks. That's far out of proportion to our roughly 25-percent share of world production and well above the 35-40 percent share of world stocks held by the United States in the late 1970's."

Within the United States, the stocks-to-use ratio has climbed sharply for both wheat and feed grains. Our wheat stocks at the end of the 1980/81 season were equivalent to 43 percent of that year's total use, including both U.S. domestic use and exports. The ratio at the end of the 1985/86 season is projected to be around 83 percent. (According to Evans' colleague, economist Keith Collins, the wheat surplus will be large enough "to feed each man, woman, and child in America one loaf of bread every day for a year.") For corn, the major U.S. feed grain, the stocks-to-use ratio has risen from 14 percent in 1980/81 to a projected 43 percent this season.

Efforts Backfire

So far, U.S. efforts to deal with surpluses have largely failed. "Our attempts to cut production, maintain price supports, and isolate surpluses from the market tended to provide an incentive for other nations to increase production and let the United States hold the surplus stocks," says Evans.

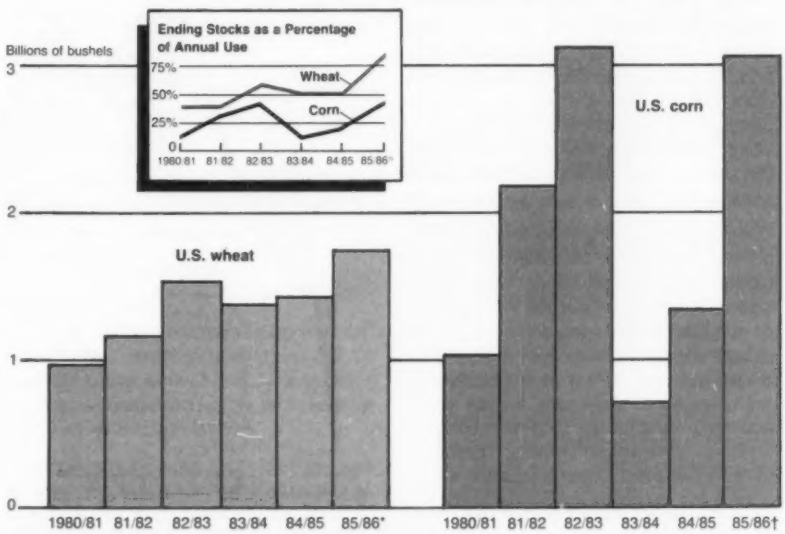
In wheat, for example, the United States has cut production in 3 of the last 4 years, while production in the rest of the world continued to rise until the 1985/86 season.

"Because our competitors maintained or increased their production surpluses while production deficits among the importing nations were shrinking, the result," says Evans, "has been price wars and increased subsidies as exporters attempt to maintain their market shares. The United States has been the big loser in the trade war because of the strong dollar and its price support and acreage reduction programs."

Whether the situation will soon improve is still open to question, adds Collins.

"Current crop surpluses, here and abroad, are the result of many interacting factors. A number of these could reverse them-

To Succeed, the New Farm Bill Must Reverse the Buildup in U.S. Grain Stocks



*Ending stocks projected for May 31, 1986, based on mid-December 1985 USDA forecast. †Ending stocks projected for September 30, 1986, based on mid-December 1985 USDA forecast. *Projected.

By the end of this marketing year, the United States may have enough surplus wheat to give one loaf of bread each day for a year to every man, woman, and child in America.

selves in coming years. Income growth around the world could pick up, the value of the dollar could decline, or weather could be less favorable than it has been," he says.

"However, other factors, such as excess capacity based on U.S. and foreign productivity gains, are not likely to reverse. Export markets will remain highly competitive, and growth in world consumption will not translate into the rapid trade expansion experienced during the 1970's. This means the battle for market shares will be intense, and U.S. prices will have to be competitive."

Choosing Among the Options

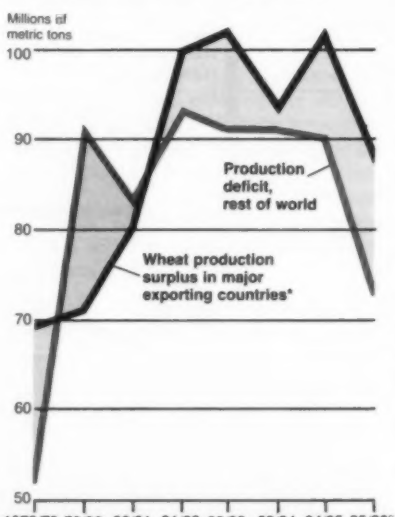
It was this realization, says Collins, that overshadowed deliberations on the 1985 farm bill. In very general terms, the farm policy options facing lawmakers involved four alternatives for dealing with surpluses: (1) letting both farm prices and production adjust to the market, as the Administration had originally proposed; (2) fixing both prices and production, essentially turning back the clock to New Deal-era policies; (3) supporting prices and letting production adjust, which was basically the 1981 farm bill policy; and (4) curtailing production and letting prices adjust.

Congress debated the various alternatives, but the choices were soon narrowed down, Collins explains. Policies that would affect neither price nor production were judged as too damaging in the short run for an already-depressed farm sector. Policies that would "manage" both price and production were judged as too costly for the entire economy—and for the long-term competitiveness of American farmers. The policy of fixing price and letting production adjust is what led to current surpluses, and it too was rejected.

The decision to curb production and let prices adjust to market demand left, of course, a number of other issues that had to be resolved, including how much prices should be allowed to fall and to what extent government should be involved in restraining production.

In a sense, say Evans and Collins, the 1985 farm bill represents an experiment. The hypothesis is that lower loan rates will stimulate exports, discourage further production gains abroad, reduce U.S. surpluses, and raise farm incomes. To limit the risk to the farm sector and allow time for it to adjust, target prices for wheat and feed grains are initially frozen and then allowed to drop gradually.

Production Surpluses of Major Wheat Exporters Remain Well Above Production Deficits of Importers



*United States, Canada, Australia, Argentina, and European Community. Surplus defined as production in excess of exporters' domestic needs. eProjected.

The hypothesis is that lower loan rates will stimulate exports, discourage further production gains abroad, and reduce U.S. surpluses.

However, dealing with surpluses by lowering loan rates, maintaining target prices near current levels, and using acreage reductions and a long-term Conservation Reserve to cut surpluses has some drawbacks, Evans notes. It will not be cheap, nor will it prevent continuing financial stress in the farm sector.

It may also require large acreage diversions to offset the production incentives inherent in maintaining high target prices. Finally, he says, it raises a question about the large U.S. stocks isolated from the market. Stocks tied up in the farmer-owned reserve cannot be released until prices reach specified levels.

"With wheat, for instance, we're now exporting just about every available bushel that isn't locked up in the reserve or owned by the CCC. A squeeze on 'free' stocks this season and in future seasons could raise prices to 1985 loan levels and above," Evans warns. "That would encourage U.S. and foreign production, curb exports, and possibly prevent a drop in surpluses."

Evans and Collins speculate that the success of the new farm program in eliminating surpluses may vary, depending on the crop. Prospects are best, they contend, for corn and soybeans because underlying foreign demand is strong, foreign competition is limited, and yields are variable. It will be more difficult to cut wheat, rice, and cotton surpluses. "Competition among these crops is intense, and technology is rapidly increasing global productivity," Collins says. □

[Based on material provided by economists Sam Evans and Keith Collins of the National Economics Division, Economic Research Service.]

Super Farms: Giants of Agriculture

If matched against the giants of most other industries, they would barely be noticed. In agriculture, however, they stand out.

Farms with annual sales of $1 million or more belong to a small, but often highly visible, fraternity. They stand out because U.S. agriculture is still overwhelmingly populated by much smaller farms. They also stand out because their role in agriculture is far greater than their numbers might indicate.

The million-dollar-plus operations account for only about 1 out of every 250 U.S. farms, yet they take in more than $1 of every $5 of farm receipts. Together, they control about 47 million acres of land and $52 billion worth of assets.

And their numbers, although small, have been growing.

"Unless farm conditions during the last few years have altered the trend, the million-dollar-and-up farms represent one of the fastest growing sales classes in American agriculture," says USDA economist Paul Velde of the Economic Research Service.

Velde analyzed recently available data from the 1982 Census of Agriculture to construct a profile of these "super farms." Among other things, he found that their numbers increased nearly 50 percent between 1978 and 1982—from 6,290 to 9,190 farms.

Almost half of this growth, he says, was related to inflation and higher prices for farm products. However, many super farms topped the million-dollar mark through increased sales volume, reflecting new investment, expansion, or consolidation.

When combined, both inflation and increased sales volume gave the super farms a larger role in U.S. agriculture. They rang up receipts of $30.3 billion in 1982, 23 percent of total U.S. farm sales. In 1978, the comparable numbers were $20.3 billion, 21 percent of total U.S. farm sales. Total acreage on super farms reached 47.4 million acres in 1982, up 7 million acres since 1978 and 4.8 percent of all land in farms.

Size, Type, Location

Velde notes that super farms are not necessarily the biggest farms in terms of acreage. "There are more than a thousand of these million-dollar farms with fewer than 50 acres," he says. "In fact, one-third of all super farms have less than the U.S. average of 440 acres."

California had fully a fourth of all super farms, followed by Florida and Texas.

The explanation relates mostly to the commodities such farms earn their incomes from. Many super farms specialize in livestock, poultry, or egg production, and others grow high-value crops such as oranges, grapes, and commercial flowers.

Of the various commodity classifications, livestock operations accounted for the most $1-million-or-more farms (2,774). Poultry and egg farms were second (1,245), and dairy operations came in third (1,038). Fruit and tree nut farms were next (812), followed by field crop farms, excluding cash grains (774), and vegetable and melon operations (725).

There were 685 horticultural specialty operations and 610 cash grain farms ringing up $1 million or more in sales.

California had fully a fourth of all farms with sales of $1 million or more (2,398), followed by Florida with 643 such farms and Texas with 618 super farms.

Every state has at least a couple of super farms, according to Velde. Those with the fewest farms of $1 million or more in sales in 1982 were Alaska and Vermont.

Is Bigger Better?

"The 1982 Census numbers on large farms," says Velde, "seem to raise again the old issue: Is bigger better? And if the question cannot be phrased so simply, what impacts are likely with larger farms?"

One concern, he says, centers on the consumer impact as super farms comprise an ever larger proportion of the sales and productive capacity in agriculture. Some observers suggest that concentration is unwise and could lead to higher consumer prices.

"Certainly, the United States has seen and survived the big, highly concentrated nature of other industries," says Velde. "In some other industries, we see only a handful of firms. But in agriculture we are still dealing with thousands of firms producing nearly all commodities—far too many to exert monopoly power on food prices."

For their part, some operators of super farms say that consumer prices might actually go down—largely because of the economies of scale they say are inherent in larger firms.

Velde isn't so sure. "Even if larger farms operated more efficiently, the savings may be absorbed in the marketing process and wouldn't necessarily be passed along to consumers," he says.

On the other hand, he does see some evidence of greater productivity and efficiency with large farms. For example, super farms report greater yields for some crops compared with much smaller farms. His analysis shows that corn growers with farms in the $1 million sales class harvested an average of 122 bushels of corn per acre in 1982, compared with 112 bushels for farms in the $100,000 to $249,999 sales class, and 91 bushels for farms in the $10,000 to $39,999 sales class. Farms in the $500,000-$699,999 sales class had yields per acre roughly equivalent to those of super farms. Farms with annual sales of $10 million or more had the highest average yields per acre, nearly 140 bushels.

Moreover, he says, in contrast to previous years, "farms in the million-dollar sales class appear to be more efficient than their smaller counterparts when measured in terms of returns to investment, for instance."

He cautions, however, that the data he examined from the 1982 Agriculture Census only measures the averages of these groups.

"It doesn't mean that every large farm is more productive or efficient than every small farm," Velde says, "or that all large farms are productive or efficient. And it doesn't take into account the relative status of particular commodities or regions of the country." □

AGRICULTURAL ROUNDUP

Gleanings

. . . on economic policy, farm policy, credit, trade, and the rural job outlook excerpted from various speeches presented at USDA's 62nd annual Agricultural Outlook Conference, held December 3-5, 1985, in Washington, D.C.

"WE SIMPLY CANNOT TOLERATE . . . a turndown in the U.S. economy. Any stalling of the U.S. expansion could lead to renewed calls for protectionist legislation, intensifying any downward spiral in world output and agricultural exports. How can we avoid this pessimistic scenario?

". . . The only way to restore vigor to agriculture, manufacturing, and other depressed sectors is to achieve real interest rates and exchange rates consistent with a more balanced economy. Farm policy hasn't caused declining prices for agricultural land and agricultural commodities; budget policy has. So the fate of agriculture is tied to the prospects for reducing deficit spending." *Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System.*

"(THE FARMER) HAS A SPECIAL CASE and, therefore, special measures are justified. First, unlike factories, you cannot just switch machinery on and off to adjust production to market demands. It takes time and care to make adjustments. Second, farming is the lifeblood of many regions (and) when farms close down, it has a compounding effect . . . on the whole community . . . Third, farming by its very nature is not mobile. Fixed to the land, buildings, and equipment, it cannot be moved or transferred to some other place.

"Fourth, once the farming and rural infrastructure is damaged or destroyed, it will be very difficult and costly to rebuild it. And yet the time will surely come when agricultural production will have to be raised to meet the increased demand of both people and industry . . . People can do without many things, but certainly not without food . . . Food security is therefore a national as well as an international responsibility, the cost of which must be borne by governments and not by farmers." *Baron Heereman, President, International Federation of Agricultural Producers.*

"DO ALL THE SIGNS point to nothing but struggle and pain for the farm sector in the years ahead? I think not . . . The history-making move toward lower loan rates . . . and the recent declines in the value of the dollar are glimmers of light at the end of a very dark tunnel . . . Let us not forget that real prosperity for agriculture will come not from producing for government stocks, but only from expanding markets. Lower loan rates and the cheaper dollar are a beginning toward expanding markets and prosperity for American agriculture.

". . . But if agriculture is to prosper again, debt in the sector must be reduced, not increased; asset values must adjust to prospective commodity market conditions, not be artificially inflated with easy credit, or risk transfers from the public, or tax subsidies. Some resources—land, capital, and labor—must leave, not stay in agriculture. . . . Further, bold action by the U.S. agricultural community in . . . aiding agriculture in less developed countries also can mean major strides toward returned prosperity . . . The less developed countries are tomorrow's customers for U.S. farm products, if their incomes can be increased." *Robert L. Thompson, Assistant Secretary for Economics, USDA.*

"IN THE YEAR AHEAD, total cash receipts are expected to decline slightly—up to 4%—with crops accounting for all of the decline. Livestock receipts may rise slightly as small gains in poultry and dairy receipts, due to increased volume of marketings, will combine with higher hog prices and receipts. Cattle receipts in 1986 are anticipated to remain near those of 1985 as sharply lower production is offset by stronger cattle prices.

". . . It may be some time before agriculture again experiences significant price and income increases. However, as the adjustment process now underway runs its course, returns on new investment in farming will again become competitive." *John E. Lee, Administrator, Economic Research Service, USDA.*

"COMBINED GLOBAL TRADE in wheat, coarse grains, and soybeans is expected to be down about 10% in 1985/86. With further U.S. share losses because of increased competition from other countries, U.S. exports will fall even more. U.S. wheat exports are expected to be down more than 15%.

". . . The global agricultural outlook over the next several years is for continued gains in productivity, rises in product consumption, and a recovery in trade levels. The magnitude of increases in global agricultural trade will depend to a marked extent on import needs of the Soviet Union and China." *James R. Donald, Chairperson, World Agricultural Outlook Board, USDA.*

"THE SHARP RISE IN WHEAT YIELDS during the past 5 years seems to be marking a new era in yield advances . . . we may see U.S. national wheat yields averaging 45 bushels per acre by 1990 and possibly approaching 55 bushels per acre by the year 2000. Given this outcome, the critical question becomes: Can demand be increased sufficiently to offset the increased production potential? Or, even with maximum increases in demand, will an excessive production capacity still exist? The latter appears to be the case." *Frank Gomme, Foreign Agricultural Service, USDA."*

"TO BE (THE) PREFERRED SUPPLIER, the United States must beat other exporters to the business. Since 1980, we have not done well in that competition . . . We have the economic edge, if our price support policies will allow it to work . . . We have idle land and idle handling capacity that we can bring on stream at low cost. Our competitors are producing and exporting at capacity. They must make further capital investments if they wish to expand. We can slow down—and, in some cases, stop—competitive expansion by exposing them to the threat of strong U.S. competition at levels that do not justify investments in expansion.

". . . But, even if economics are on our side, will trade policies—here and abroad—permit a freer flow of goods? The drive for freer trade currently seems hemmed in on all sides . . . U.S. grain agriculture is rightly concerned about this situation. It understands that trade must be a two-way street. We cannot sell more, especially to developing country markets, while throwing up barriers to their exports to us." *Robbin S. Johnson, Vice President, Public Affairs, Cargill, Inc.*

"IN ANALYZING the financial situation at the Farm Bureau, we see continued adjustment of the farm operator debt load to levels that can be serviced from farm earnings. We see debt coming down to match earnings and not earnings going up to meet debt service . . . From the farmer's perspective, the financial situation boils down to a question of whether the reduction in debt will be 'paid for' through farm operators leaving farming and the assets repurchased at lower prices by other producers, or through debt restructuring for present farmers. . . .

". . . If all the farmers associated with the lender losses I discussed earlier are forced out of business, about 90,000 commercial farmers would exit farming over 3 years starting with 1985. This is about 15% of the commercial farmers . . . The discussion over the next year will be focused on how to keep some of these 90,000, probably about half of them, in business, while reducing their debt loads to manageable levels." *John K. Hosemann, Senior Economist, American Farm Bureau Federation.*

"AT THE RISK of sounding simplistic, I want to preface everything with the basic premise that only a profitable agriculture will be a bankable agriculture over the long run . . . (Agriculture) is undergoing fundamental structural changes that are resulting in a truly excessive level of insolvencies. As a result, short-term bank-aid approaches will do more harm than good. *Michael E. Fitch, Chairman, Executive Committee, American Bankers Association.*

"THE DEPRESSED farm economy has already taken its toll on many of the banks serving agriculturally dependent counties. Of the 89 commercial banks that failed prior to October 11, 1985, 26 were headquartered in agricultural counties. This amounts to an annual failure rate of nearly 1.5%—more than twice the failure rate for banks headquartered elsewhere.

". . . As banks adjust their lending decisions to deal with weaknesses identified by bank regulators, 'marginally qualified' borrowers are likely to be denied credit. This may force some farmers into bankruptcy, but it will also reduce credit availability for nonfarm rural businesses, putting rural communities in agricultural areas . . . at a comparative disadvantage in attracting new businesses and holding existing firms. Depending upon the size and structure of the local banking system, this could dampen the growth potential of the local nonfarm economy at a time when off-farm employment may be critical to the ultimate survival of the family-sized farm and to the economic well-being of people displaced from agriculture." *Patrick J. Sullivan, Economic Research Service, USDA.*

"THE DECLINE in the number of farmers has been an important trend throughout most of the history of U.S. agriculture. What is different about today's displacement . . . is the changed characteristics and economic position of the farmers who are leaving agriculture . . . Today, displacement is occurring among the larger and more efficient farm operators who made investment decisions based on the favorable economic environment of the 1970's. . . .

". . . Historically, the continual movement of large numbers of workers out of farming has been made possible by the growth and attractiveness of nonfarm job opportunities. But overall economic growth during the early 1980's has been extremely weak in today's most farm-dependent states and regions. This is especially true, for example, in the farm-dependent counties of the Corn Belt, where overall employment has continued to decline since 1979." *Fred K. Hines, Economic Research Service, USDA.*

"FARM FAMILIES that are forced to seek other employment are likely to experience adjustment problems similar to those encountered by workers displaced by manufacturing plant and mine closings. While some . . . are already working off the farm, others may have little or no experience in off-farm employment. Further, displaced farm operators may be seeking alternative employment at a time when few new jobs are available in their local areas. Farm families may then be forced to relocate to larger urban areas . . . in search of employment, perhaps only to find that their skills are not highly marketable in urban labor markets. For those farm families, grants, loans, and other programs to cover some of the costs of training, job search, and relocation could be very helpful." *F. Larry Leistritz, professor, North Dakota State University.*

Vietnam's Search for Recovery

After 10 years of unification, the Socialist Republic of Vietnam is still a nation searching for recovery, according to USDA economist Leslie Ross of the Economic Research Service.

And, says Ross, heavy foreign debt, lack of investment capital, raw material shortages, and Vietnam's continuing occupation of Cambodia are making progress toward this goal harder to achieve.

"Vietnam has been slow to recover economically from the effects of the war, which ended with the U.S. withdrawal in 1975," notes Ross. "There has been some progress in increasing rice production and replanting rubber, but the rebuilding of basic industries has been an uphill fight."

Complicating that problem, says Ross, has been the slow process of integrating the nation's two diverse economic regions: the agrarian, market-oriented South and the more industrialized, socialistic North.

Significant differences between the regions persist, despite the reorganization of the South when North Vietnamese forces took control. Private ownership of all farms and businesses was abolished, and officials and technocrats from Hanoi assumed most of the political and economic leadership positions.

All key decisions regarding the economy are now made by the central government and implemented through policies based on 5-year plans.

From 1976 to 1981, the results were anything but positive. Population growth outpaced the economy's annual growth rate of only 2 percent. In 1981, however, some price and profit incentives were introduced that reversed the declines in per capita income. From 1982 to 1984, the country registered economic growth rates of 5 to 8 percent a year, Ross reports.

As encouraging as that may seem, Ross suggests that Vietnam still has a long way to go.

Heavy Reliance on Imports

Hampering Vietnam's agricultural and industrial growth is a continuing dependence on imports, a slowdown in export growth, and low foreign exchange reserves.

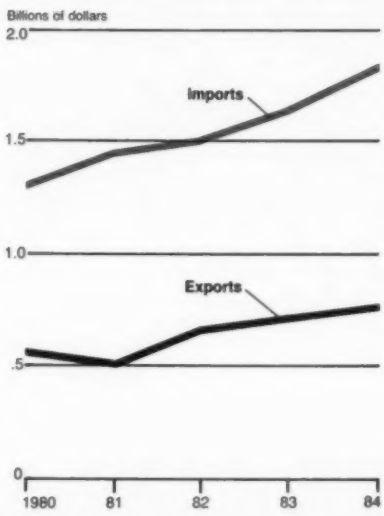
Hampering Vietnam's agricultural and industrial growth is a continuing dependence on imports.

The Soviet Union and other Eastern European nations are Vietnam's main trading partners. However, Ross points out that those trade ties do not earn Vietnam the dollars it needs to finance the imports of equipment, machinery, and technical expertise required to revitalize the economy.

"Even though Vietnam will receive about $2 billion worth of Soviet aid this year, the aid will not offset Vietnam's deteriorating financial position," says Ross. "Export volume rose 29 percent in 1982, but only 9 percent in 1984."

Ross also notes that political actions, including the Vietnamese occupation of Cambodia, have resulted in the cancellation of foreign aid from China and Western Europe. Despite a population of around 60 million, Vietnam maintains the world's fourth largest army.

Vietnam's Exports Are Growing, But Imports Are Climbing at a Faster Rate



Source: International Monetary Fund.

"Vietnam has been mired in debt since the mid-1970's when the country borrowed heavily to pay for reconstruction and food and oil imports," explains Ross.

Yet the problem of rebuilding a war-torn industrial base remains, and the situation is compounded not only by the lack of dollars, but also by inadequate transportation facilities, fuel shortages, and a scarcity of skilled managers.

Some industries were damaged by military actions during the war, and others were neglected. Many businesses in the South were virtually abandoned when the economy was transformed along socialist lines, and owners and managers were sent to resettlement or re-education camps.

In addition, hundreds of thousands of people, including many teachers, merchants, and technicians, have fled Vietnam since 1975.

While light industrial production of textiles and handicrafts has increased 80 percent since 1980, Vietnam's steel, cement, and fertilizer production is still 50 percent below pre-war levels.

It may well be that efforts to revitalize and expand the industrial base will depend, to a significant extent, on Vietnam's largest production sector—agriculture.

Agriculture's Important Role

Vietnam remains a largely agrarian country. Roughly 70 percent of the population earns a living from farming or the marketing of farm products. More than 40 percent of the national income is based on the sale of agricultural products.

And agriculture has, in fact, been Vietnam's lone economic bright spot in recent years. From 1976 to 1984, food grain production increased at an annual rate of 8 percent.

According to International Monetary Fund figures, the Vietnamese produced an estimated 17.9 million metric tons of food crops

Vietnam remains an agrarian nation. Roughly 70% of the population earns a living from farming or marketing farm products. Most "industrial" production is very backward by U.S. standards.

in 1984/85, including 15.6 million metric tons of rice.

The farm sector is Vietnam's major export earner and a primary supplier of its processing sector. Other than rice, the nation's major crops include corn, groundnuts, tea, rubber, coffee, and sugar. Agricultural productivity, says Ross, is essential in getting the country back on its feet financially.

"Vietnam is looking to expand its exports of commercial crops such as tea, rubber, tobacco, and jute," she says. "By expanding agricultural exports to countries that pay in dollars, francs, or other widely accepted currencies, the Vietnamese are hoping to raise more money for imports and investment capital."

Thus far, notes Ross, rice and seafood products have been the most important currency earners. Other crops are largely earmarked for trade with the Soviet Union and Eastern Europe.

Although still a net importer of rice, Vietnam exported 150,000 metric tons in 1984/85. About 80 percent of the nation's farmland is reserved for rice cultivation. The majority of rice is grown along the Mekong River delta in the South, and a secondary tract along the Red River in the North.

To encourage more rice production, the central government adopted a policy in 1981 of letting farmers sell excess agricultural products on the open market after government quotas are met. The result has been increased rice production and tax revenue. Since 1981, rice production has increased by 4 million metric tons annually.

However, inflation has accompanied the rise in rural incomes. In 1984, the annual inflation rate stood at 50 percent as demand for scarce consumer goods far exceeded the supply.

Still, notes Ross, the international sale of cash crops and light industrial goods is one solution Vietnam is counting on to help cure the country's economic malaise.

But the challenge is great. Farming is still largely unmechanized, better water control is needed, and an acute fertilizer shortage threatens productivity gains.

Future Trade Essential

If future progress is to be made, says Ross, it will depend on expanding foreign markets. To accomplish this goal, product quality must be improved.

Also, according to the economist, a streamlined bureaucracy and better economic planning are needed if the country wants to improve productivity.

In the future, she says, some decentralization of government authority may take place. In the area of the economy, consumer subsidies are being reduced. Consumer subsidies are the largest single government expenditure, amounting to 7 percent of the 1984 total gross domestic product.

"In the last 10 years, Vietnam has started the process of rebuilding the economy and has had modest success," says Ross. "But more foreign trade, technical assistance, and economic reform are needed if that growth is to continue." □

[Based on information supplied by economist Leslie Ross of the International Economics Division, Economic Research Service.]

A Lean Hog Industry Faces Lean Times

Efficiency. Hog producers didn't invent it, but they've certainly made it a part of their industry over the last three decades. You could say that the hog industry has become lean, and it's continuing to streamline, according to former USDA economist Roy Van Arsdall, now retired from the Economic Research Service. This, Van Arsdall says, has made producing hogs in the United States one of the most efficient of all agricultural pursuits.

The key to efficiency, he says, at least in the production of hogs, is size. Larger operations have a distinct advantage. Consequently, that's been the trend. But, along with larger, there's also been a trend toward fewer operations.

Between 1950 and 1980, Van Arsdall says, the number of U.S. hog farmers dropped by nearly 80 percent from a peak of more than 2 million.

At the same time, the average annual sales per farm rose from 31 hogs to nearly 300. And, instead of an equal distribution of sales from every size of farm, the largest farms now account for most of production. An example: In 1980, operations that sold 1,000 or more hogs a year accounted for only 3 percent of the total number of U.S. hog farms, but they produced 40 percent of the hogs marketed. In 1964, by contrast, only 7 percent of total hog marketings came from such large operations.

Despite the fact that substantially fewer farmers are producing hogs now than in 1950, output is about the same.

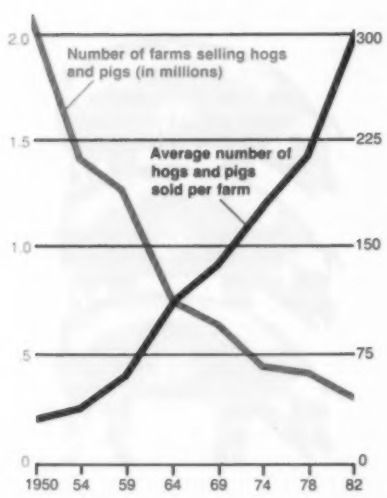
The Advantages of Larger Operations

One reason, according to Van Arsdall, is that large operations have substantial advantages over smaller operations. Among them:

- More production per sow. The largest operations studied were able to wean nearly eight pigs per litter, compared with seven or fewer for the smallest operations.
- Greater use of facilities. Large operations produce hogs intensively year-round. Their production per unit of housing, which accounts for most of the investment required in hog production, is up to six times greater than on farms with the smallest enterprises.
- Less labor and lower utility costs. Large operations use only about a fourth the labor and far less power per unit of production.
- Lower feed costs. Although large producers have always had a slight advantage over smaller ones in feed costs, their advantage increased along with their size. Bulk purchases and wholesale prices give larger producers the edge.
- More effective marketing. Large producers sell more of their feeder pigs directly to finishers and more of their slaughter hogs directly to packers, avoiding many of the marketing costs borne by small producers who, more frequently, deal with a middleman. □

[Based on information provided by economist Roy Van Arsdall, now retired from the National Economics Division, Economic Research Service.]

The Hog Farm Sector Moves Toward Fewer and Larger Operations



In a Slump

Despite such efficiencies and restructuring moves, what has been called the pork industry's worst slump in recent memory continues. And, according to USDA livestock analyst Ron Gustafson, also of the Economic Research Service, the gloom may not lift until the end of this year.

In 1985, the hog and pig inventory fell to the lowest December 1st level since 1975, and breeding herd numbers were the lowest since economists began collecting the data in 1964. Moreover, farmers' summer-fall farrowing intentions were down, meaning that pork output through at least the spring will be below what economists view as "normal levels."

Why the continued slump in hog marketings? After all, feed costs are low and there's been little price inflation in the other supplies it takes to run a hog operation.

But such easing on the cost side still did not let producers escape from below-breakeven returns during the first three quarters of 1985. According to Gustafson, depressed hog prices get the blame.

For sure, losses on the hog operation itself are reason enough for postponing any herd rebuilding. Another important thing to remember is that hogs are a liquid asset. If pressed for cash, you can take a few to market.

And it is no secret that farmers in the Midwest, where most hog production is centered, have been among the most severely strapped financially. Their land values have fallen the most in the past year or so, and prices of other farm products they sell, notably grains, have worsened too.

Southeastern Trend Favors Less Till, No-Till

Profits are probably the motive for this no-till system in which soybeans grow in the residue of the previous season's corn harvest.

In the southeastern United States, farmers are rapidly adopting conservation tillage practices, according to USDA economist Lee Christensen of the Economic Research Service.

"The conventional methods of repeatedly tilling the soil by plowing, disking, harrowing, or cultivating have been greatly reduced in favor of minimizing soil disturbance and leaving plant residues on the field surface," Christensen says. The major reasons: the control of soil and water erosion and higher profits.

Between 1973 and 1984, farmers in the Southeast increased the amount of acreage in minimum tillage by 275 percent, according to Christensen. At the same time, acreage in no-till jumped by 290 percent in the region, which includes all the southeastern states as far west as Louisiana and as far north as Virginia.

While the Southeast does not exactly mirror the trends in the nation, it does come close. Comparable increases nationwide amounted to 220 percent for minimum-tillage and 300 percent for no-till. Christensen notes that adoption rates are highest in the Corn Belt because conservation tillage methods are most developed for row crops such as corn, soybeans, and small grains, which are the predominant crops in that region.

Profits Are an Incentive

Wherever conservation tillage is used, however, profitability is a major impetus, according to Christensen. Profits are influenced by many factors including yields and major input requirements such as labor, management, pesticides, and fuel.

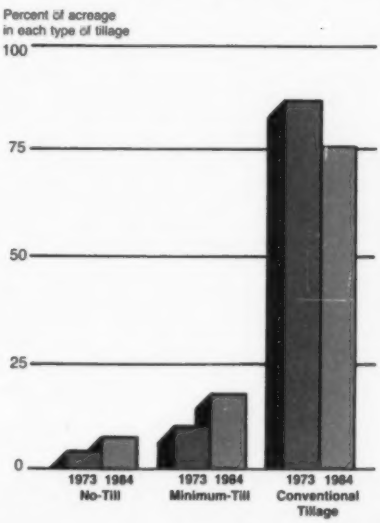
According to Christensen, farmers must take a look at the impact of conservation tillage on net revenues rather than on total or gross revenues. "Even if a particular conservation system results in lower yields, profits could remain the same because of reduced input costs," he says.

Using conservation tillage, he says, yields can be higher or lower depending on the crop and specific location. In general, conservation tillage systems perform best in areas with long growing seasons, but the suitability of the soil is also a critical factor, Christensen says.

One long-term experiment conducted in Tennessee compared the average yields for soybeans grown using conservation tillage methods with soybeans grown under traditional tillage methods. The results: an average 32 bushels an acre with conservation tillage and 36 bushels an acre without.

Labor and management costs are generally less, Christensen says, because there are fewer operations and fewer trips across the field. The most significant economic savings, however, is a lower fuel requirement. Although fuel needs can vary greatly, Christensen says, reduced tillage systems require an average 3 to 5 gallons less per acre than conventional tillage systems.

Acreage in the Southeast Is Shifting to No-Till and Minimum-Till from Conventional Methods of Tillage



Chemical Costs Can Increase

What can increase, though, is the need for more chemical controls to combat the weeds and insects that can thrive when tillage is reduced. Estimates of chemical requirements with different tillage systems varied greatly depending on the crops, soils, and management systems. A recent survey found that increases in pesticide use ranged from 14-43 percent when farmers used conservation tillage methods.

However, while higher pesticide and herbicide costs are a generally accepted part of conservation tillage, he adds, they are not inevitable. New application methods are being developed to reduce the quantities of chemicals needed on some crops, Christensen says. And farmers can also employ specialized management techniques such as using better equipment or crop monitoring programs. □

[Based on information provided by economist Lee Christensen of the Natural Resource Economics Division, Economic Research Service.]

Charting U.S. Agriculture

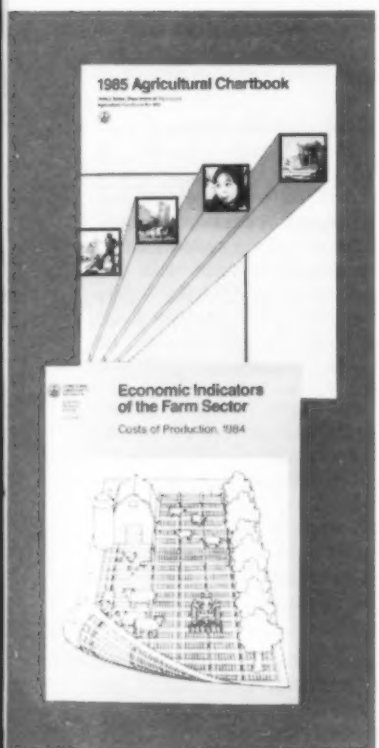
Agricultural and economic information comes alive in USDA's *1985 Agricultural Chartbook.*

Its 278 charts make it a valuable reference work, a popular teaching tool, and a convenient source of visual aids to dress up speeches and reports. Coverage is as broad as agriculture itself, and each chart is designed to make its point simply, quickly, and without distortion.

Users of the chartbook will find detailed graphs showing historical trends and current developments in agricultural trade and world production, farm income and farm debt, food prices and consumption, rural population and employment, costs of living and costs of farming, land uses and land values, and many related subjects.

Individual commodity sections provide charts on supply, demand, and price trends for beef, pork, dairy products, poultry, grains, oilseeds, cotton, fruits and vegetables, and other farm products.

1985 Agricultural Chartbook. *(Published December 1985; 96 pages, mostly charts; GPO Stock No. 001-019-00428-2; $3.50.)*



Matching Costs Against Returns

Average cash costs of producing major U.S. crops increased about 5.7 percent per acre in 1984, mainly because of higher prices for seed, fertilizer, and machinery. Livestock production costs fell an average of 1 percent in 1984, and dairy costs rose 3.2 percent.

Cash receipts, meanwhile, were lower for most crops, but higher for livestock and dairy. When cash expenses and capital replacement costs are subtracted from cash receipts, "residual receipts" fell from 1983's levels for the majority of crop commodities and were negative for both cattle and hogs.

In the crops sector, farmers' residual receipts per acre were up slightly for corn and up significantly for oats and peanuts. Residual receipts fell for sorghum, barley, wheat, rice, soybeans, sunflower, cotton, sugar beets, and sugarcane. For three of these crops—sorghum, barley, and sunflower—U.S. average residual receipts were negative.

In the livestock sector, residual receipts remained negative in 1984 for fed cattle and cow-calf operations. On average, neither could cover cash costs of production. Residual receipts for fed beef, however, did improve from −$7.51 per cwt in 1983 to −$3.43 in 1984 because cash receipts increased to their highest level since 1980.

Negative residual receipts per cwt were also recorded for feeder pigs and farrow-to-finish hogs. Residual receipts were positive for both sheep and milk, but were up for sheep and down slightly for milk.

This statistical report, part of an annual series focusing on economic indicators in farming, provides detailed estimates of costs of production, cash receipts, and residual returns for 1982 through 1984. It covers the following commodities: corn, sorghum, barley, oats, wheat, rice, soybeans, sunflower, peanuts, flax, cotton, sugar beets, sugarcane, fed cattle, cow-calf operations, feeder pigs, farrow-to-finish hogs, sheep, and milk. Data are provided for different production regions and for different size livestock operations.

Economic Indicators of the Farm Sector: Costs of Production, 1984 *coordinated by Bob McElroy, Ken Baum, and Jim Johnson. (Published September 1985; 151 pages, mostly data tables; GPO Stock No. 001-019-72072-7; $5.50.)*

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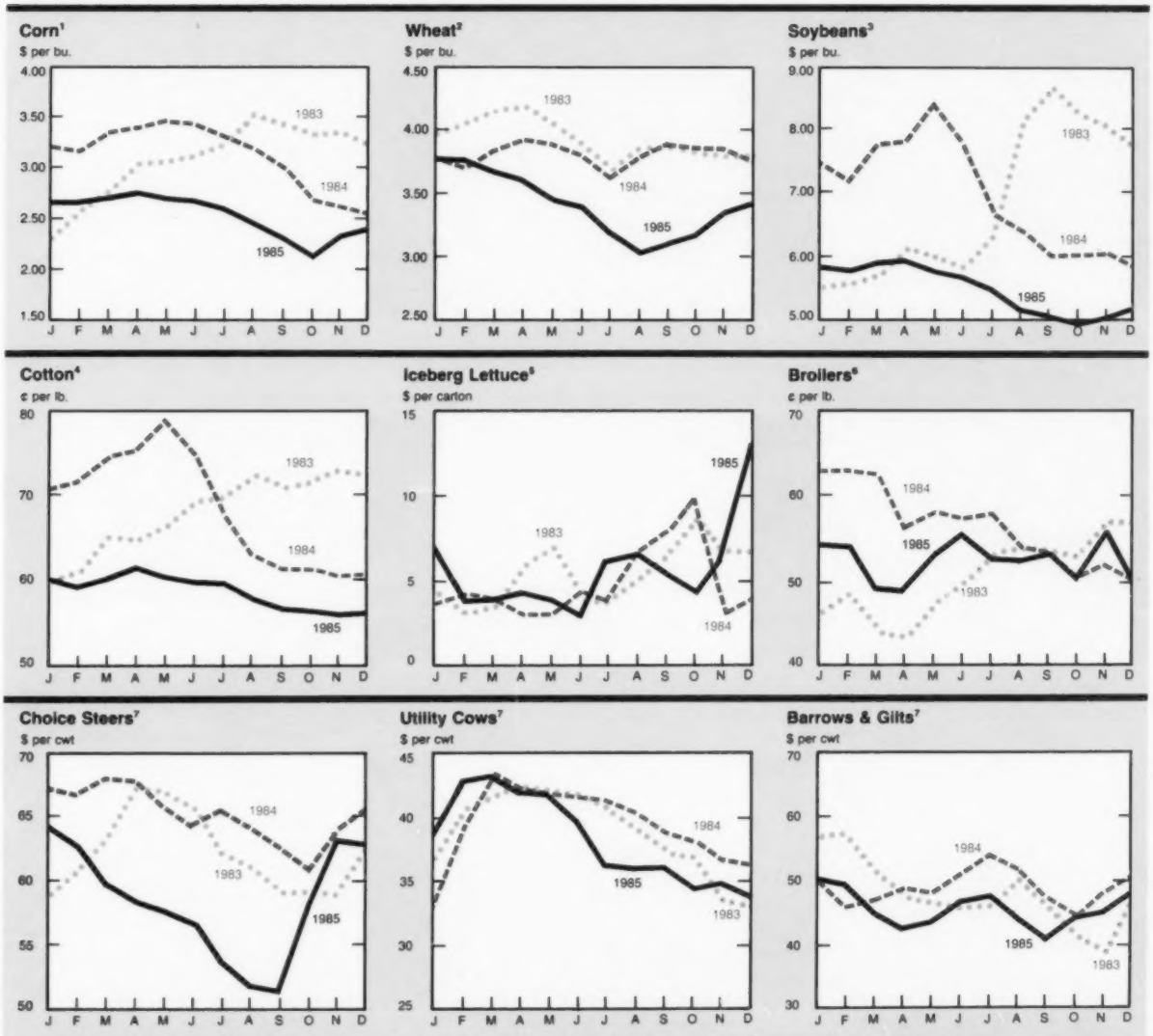
Monthly Price Monitor

USDA's index of farm prices rose nearly 1% in December but was 5.2% below its year-earlier level. Although 1985 ended with corn, wheat, and soybeans moving upward, these were the lowest December prices in 3 (or more) years. At $2.38 per bushel, corn was 18¢ below its Dec. 1984 price, wheat was down 34¢, and soybeans—at $5.14—were off 74¢. Other end-of-year comparisons showed cotton down 4.2¢ a pound to 56.3¢, while iceberg lettuce was up $9 per carton. Choice steers sold for $62.94 per cwt in Dec. 1985, down from $65.31 in Dec. 1984. For hogs, Dec. 1985's price of $48.02 was the highest in 10 months, but it was still almost $3 below the Dec. 1984 level.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1⅛" spot market price. [5]Standard carton 24's, California-Arizona. [6]Wholesale, New York. [7]Omaha.

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